MLM

MAPLE LEAF MILLS LIMITED 1973

Annual Report to Shareholders
for the year ended December 31, 1973

Maple Leaf Mills Limited

Directors

R.G. Dale
J.D. Leitch
J.L. Lewtas
F.H. Logan
G.M. MacLachlan
J.A. McCleery
B.A. Norris
L.J. Risi Jr.
J.H. Taylor
R.W. Wadds
M.D. Weiner

Officers

President and Chief Executive Officer
R.G. Dale

Senior Vice-Presidents

P.W. Strickland	Operations
J.A. Telfer	Finance and Corporate Development

Vice-Presidents

G.F. Allan	Flour
H.W. Blakely	Grocery Products
P.W. Couse	Agriculture
S.A. Miller	Personnel
W.G. Milliken	Vegetable Oil
W.E. Paterson	International
C.L. Turner	Grain

Financial

D.D. Brown	Controller
R.E. Lennox	Assistant Secretary-Treasurer
J.J. Wigle	Secretary-Treasurer

Head Office

417 Queen's Quay West
Toronto, Ontario M5V 1A2

Transfer Agent and Registrar

Crown Trust Company
Toronto and Montreal

President's Letter

To the Shareholders:

The fiscal year 1973 was a record one for Maple Leaf Mills as sales and earnings rose to new highs reflecting the world demand for grain and protein of all kinds which forced prices of many commodities to levels which were unprecedented in recent history.

During the same period, Canadian Agriculture experienced one of the greatest changes in markets and prices that we have ever seen, and the resultant strengthening of this segment of the economy had a very positive effect on our operations in this and related fields.

The higher costs of commodities and agricultural products and general crop deficiencies throughout the world contributed greatly to rising food costs in Canada during the year. This tended to focus both consumer and government attention on the food industry even though Canadians spend a lower percentage of their disposable income on food than people in most other countries. Although we feel that there is not likely to be any significant decrease in food prices in the forseeable future, we fully expect that the rate of increase will be less than in 1973.

Approximately one third of our net sales relate to products which we produce directly for the consumer market, but less than ten percent of our earnings from operations are derived from this source. It is obvious therefore that the return in this segment of the business which includes our bakery affiliates, even though somewhat improved in the past year is still far from satisfactory and we will continue our efforts to better these results in the years ahead.

While overall return on Invested Capital reached a satisfactory level of 11% in 1973, the five year average including this year was less than 6% calculated on ordinary earnings. This average return is too low, when we consider the degree of risk inherent in our business.

During the year the Federal Government formally expropriated our waterfront complex in Toronto. Plans to relocate our feed manufacturing capacity are complete and plans to relocate the vegetable oil operations, dry pet food plant, grain storage and the head office are well underway. The book gain of $8,918,000 on expropriation should be viewed in the context that replacement costs will far exceed the payments received. As previously announced the Company intends to seek additional compensation with respect to this expropriation.

The world grain situation remains uncertain and it is likely that wide swings will continue as a way of life in the highly volatile commodity markets for some considerable time. In general, the outlook for 1974 appears satisfactory, although the continuing escalation of costs due to the relentless pressures of inflation and high interest charges will most certainly have an adverse effect on profit margins in some areas of our business.

At the end of 1973, Maple Leaf and its associated companies employed more than 5,500 men and women across Canada. Their loyalty and co-operation contributed significantly to the excellent results of this year and we greatly appreciate their efforts.

On behalf of the Board of Directors

R G Dale

Robert G. Dale
President & Chief Executive Officer

May 8, 1974

Financial Review

Sales and Earnings

Record sales revenues amounted to $266,127,000 in 1973, up $67,000,000 or 34% from the previous year. Although modest volume increases were achieved in most divisions, most of the increase reflects higher prices for grains and other commodities.

Earnings before extraordinary items also reached a record level of $7,859,000 compared with $3,150,000 in 1972. The agriculturally oriented, commodity based nature of the company helped most divisions reach better than average results. Maple Leaf's share of the ordinary earnings of its bakery affiliates (Corporate Foods Limited, Eastern Bakeries Limited and McGavin Toastmaster Limited) amounted to $266,000 in 1973 representing a return on investment of only 4%. In 1972 the comparative figures were $99,000 and 1.5%.

Dividends

Common share dividends were 95¢ per share in 1973 compared with 80¢ the previous year. The quarterly dividend has been increased to 35¢ per share effective April 1, 1974.

Working Capital Position

Working capital increased by $20,280,000 during the year. The improvement is due almost entirely to the strong earnings and compensation received for expropriated property. A considerable portion of this will be required for the 1974 capital expenditure program which totals $10,000,000 including the first phase of the replacement of expropriated property.

Accounts Receivable and Inventories

Both sales and receivables are up 34% over the previous year. Inventories which amount to $51,315,000 are up 48% over 1972, due almost entirely to higher costs.

The company has strong borrowing power against these assets. However, the increase in current assets totalling $26,500,000 must be partly financed by re-invested earnings. This requires a higher level of earnings to maintain an adequate return on investment.

Five year financial summary

	YEAR ENDED DECEMBER 31				
	1973	1972	1971	1970	1969
	(000's omitted)				
Operating results					
Net sales	$266,127	$198,801	$202,154	$201,681	$203,315
Earnings before extraordinary items	7,859	3,150	1,737	2,225	2,847
Net earnings	16,931	3,777	2,566	2,225	2,552
Dividends	1,598	1,375	1,379	1,378	1,534
Cash flow	12,655	6,392	5,107	5,787	6,248
Return on sales	2.9%	1.6%	0.9%	1.1%	1.4%
Financial position					
Working capital	$ 42,569	$ 22,289	$ 20,782	$ 20,791	$ 21,561
Total assets	139,213	117.165	118,126	122,886	116,839
Long-term debt	12,994	13,716	13,844	14,619	15,174
Common shareholders' equity	61,845	46,474	44.028	42.795	41.947
Return on equity	*14.6%	8.1%	5.7%	5.0%	5.9%
Per common share					
Earnings before extraordinary items	$ 4.85	$ 1.90	$ 1.02	$ 1.33	$ 1.71
Net earnings	10.51	2.30	1.54	1.33	1.53
Dividends	.95	.80	.80	.80	.90
Shareholders' equity	38.56	28.99	27.47	26.75	26.22

*Excludes gain on expropriation

Grain

As St. Clair Grain and Feeds we operate a system of eleven country elevators in Southwestern Ontario. These facilities provide service to the producers of Ontario corn, soybeans, wheat and barley. Many of the locations are complete farm service centres and carry on a flourishing seed, fertilizer and farm supply business.

We operate a terminal elevator at Sarnia with a capacity of 5,500,000 bushels and a 4,000,000 bushel terminal at Toronto. Through these terminals and others on the Great Lakes and St. Lawrence, we are large merchandisers of grains in Eastern Canada. Our principal customers are distilleries, starch companies, cereal manufacturers, feed manufacturers, flour millers, oilseed processors and maltsters. Another important role of the Grain Division is to procure the grain requirements for all other divisions of the company.

Flour

The Flour Division serves large, medium and small bakeries, biscuit manufacturers, soup companies, pizza manufacturers, pasta establishments, candy companies and other enterprises that require flour in their manufacturing processes.

As manufacturing processes become more sophisticated many of our customers require highly specialized flour. Because MLM has been able to mill to narrow specification ranges, we have become specialized in this field and have been able to increase our sales accordingly.

During 1973, the Flour Division added to its prepared mix line, a line of high quality Bread Mixes. We are presently marketing eight varieties (White, Crusty, Honeywheat, Light Rye, Dark Rye, Hovis, Protein and SIX Grain). Attractive packaging material is supplied by us to the baker to improve the shelf appearance of his product.

Following a dramatic increase in the price of wheat in international markets, The Canadian Wheat Board pegged the base price of wheat to the milling industry for flour consumed in Canada at \$3.25 per bushel during 1973. The standard price had been \$1.95½ per bushel for several years. The subsequent increase in the price of flour was limited to the increase in the cost of the wheat content.

Grocery Products

Since introduction in 1972, JOLLY MILLER Flavour Crystals have become the fastest growing item of the Grocery Products Division. Consumer awareness of this new product is being fostered by television commercials in all major markets across Canada.

Distribution of recipes is one of the most effective means of promoting the use of company products. Public acceptance of cookbooks and recipe booklets has been highly gratifying over the years; the PURITY Cookbook in particular is a long standing "best seller".

A company's reputation rests on the quality of its products. The Home Service Bureau, in cooperation with Research and Development, carries out a continual process of testing our well known MONARCH brand of family flour and convenience mixes.

Agriculture

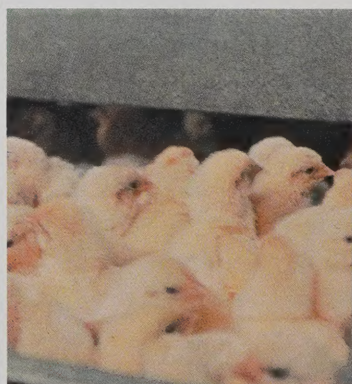
To meet the challenge of rapid technological change, the Agricultural Division maintains an aggressive research program. We are guided by the information obtained from research to adapt our products to the continuing and complex changes in production and marketing methods.

The poultry and livestock facilities at our Agricultural Research Centre are designed to thoroughly test and formulate feeding programs of the highest nutritional efficiency.

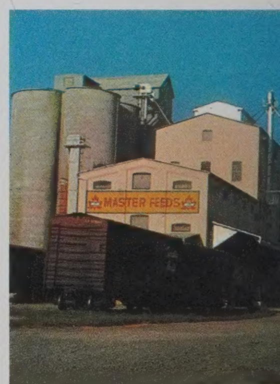
In crop research our aim is to provide the Seed Division with new superior varieties of corn, forage, grasses, legumes and turf grasses, suited to varying Canadian conditions.

Our manufacturing facilities are strategically located throughout Canada. These facilities include eleven major plants which produce MASTER FEEDS for all classes of livestock and poultry. We accumulate, process and package lawn grass and forage crop seeds in both eastern and western Canada for sale in both the domestic and export markets. Hatching, growing and processing of poultry is another important activity of the Agricultural Division.

Research



Manufacturing




Through its many branch operations and retail stores, the Feed Division has become a major distributor of essential products and services to both the producer and the consumer. Continual changes in our distribution systems enable us to better serve the needs of agricultural customers. Mobile mills which manufacture a complete feed from feed supplement and the producer-customer's grain and the introduction of LIQUA SUPP are among our more recent distribution innovations.

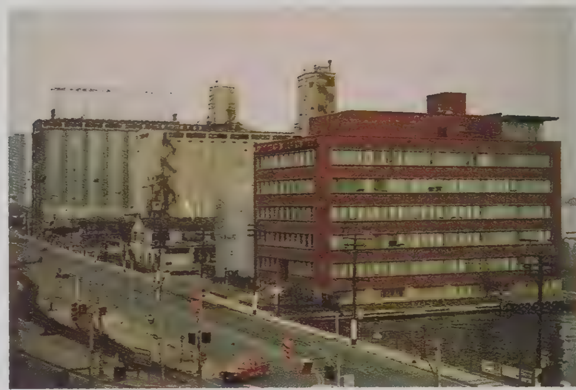
Seed and seed corn is distributed through company owned retail branches and many independent seed and seed corn dealers. Consumer products, such as lawn grass seed, are marketed through large consumer outlets and garden supply centres. PINECREST brand poultry products are distributed through take-out chicken outlets, food chains and the institutional trade.

The Agricultural Division is in the unique position of having direct contact with the producer and retailer of agricultural products such as beef, pork, poultry and eggs. A major segment of the agricultural industry is now subject to extensive regulations administered by various provincial and federal commodity marketing boards. To adapt to these significant changes, the division is strengthening its organization and management team.

Distribution

End Products

Vegetable Oil



The Oil Division operates two oilseed crushing plants at Toronto—a solvent plant for processing soybeans and an expeller plant for flaxseed. Soybean and linseed meals are most important sources of protein for livestock and poultry feeds.

Soybean oil is primarily used for edible purposes in the manufacture of margarine, shortening, salad and cooking oil. Linseed oil is the most important drying oil used in paints, varnishes and other types of coatings. We also produce other industrial oils which are sold to manufacturers of surface coatings and finishes, caulking compounds, printing inks and plasticizers.

The division through its International Trading Department imports a variety of crude vegetable oils which are used mainly as components in the manufacturing of soaps and edible oil products.

International

The International Division was recently formed as a result of the company's growth and interest in international markets. The major area of development to date is in the Caribbean where we operate two flour mills, La Minoterie d'Haiti under a management contract with the State of Haiti and National Flour Mills Limited in Port of Spain, Trinidad also under a management contract. Maple Leaf also has an equity position in the Trinidad mill.

Under our supervision a mill expansion has recently been completed in Haiti. National Flour Mills has an expansion program well underway, expected to be completed by August, 1974.

Consolidated Statement of Earnings

	FOR THE YEAR ENDED DECEMBER 31	
	1973	1972
	(000's omitted)	
Sales and revenues:		
Net sales, operating revenues and commodity trading margins	$266,127	$198,801
Investment and other income	2,617	1,954
	268,744	200,755
Costs and expenses:		
Cost of sales and operating expenses	223,770	168,835
Selling and administrative expenses	22,148	18,849
Depreciation (note 1)	3,779	3,586
Interest on bankers' advances and notes	2,465	1,886
Interest on long-term debt	927	982
Remuneration of directors and senior officers	564	423
Minority interest	482	94
	254,135	194,655
Earnings before income taxes and extraordinary items	14,609	6,100
Income taxes (note 5)	6,750	2,950
Earnings before extraordinary items	7,859	3,150
Extraordinary items (note 10)	9,072	627
Net earnings	$ 16,931	$ 3,777
Earnings per common share:		
Earnings before extraordinary items	$ 4.85	$ 1.90
Extraordinary items	5.66	.40
Net earnings	$ 10.51	$ 2.30

Consolidated Balance Sheet

ASSETS	DECEMBER 31 1973	1972
	(000's omitted)	
Current:		
Marketable securities, at cost which approximates market	$ 2,664	$ 3,090
Accounts receivable	40,052	29,980
Deposits with The Canadian Wheat Board	7,512	5,227
Bankers' advances applicable thereto (note 3)	(7,512)	(5,227)
Inventories (note 1)	51,315	34,713
Prepaid expenses	1,161	868
Total current assets	95,192	68,651
Investments (note 1):		
Mortgages and other investments	4,433	7,421
Joint ventures	5,338	4,727
	9,771	12,148
Property, plant and equipment (note 2)	33,388	35,453
Other:		
Unamortized debenture discount and expenses	256	295
Goodwill (note 1)	606	618
	862	913
	$139,213	$117,165

LIABILITIES

	DECEMBER 31 1973	1972
	(000's omitted)	
Current:		
Bankers' advances (note 3)	$ 28,069	$ 20,320
Notes payable		10,635
Accounts payable and accruals	17,340	13,201
Income and other taxes payable	4,130	1,840
Dividends payable	418	366
Allowance for disturbance costs (note 11)	2,666	
Total current liabilities	52,623	46,362
Long-term debt (note 4)	12,994	13,716
Accrued pension costs (note 1)	1,775	1,855
Deferred income taxes (note 5)	4,638	3,101
Minority interest in subsidiaries:		
Preference shares (redeemable for $1,486,000)	1,384	1,448
Common shares	2,606	2,571
	3,990	4,019
Shareholders' equity:		
Capital stock (note 6)	6,628	6,910
Contributed surplus (note 7)	646	616
Retained earnings	55,919	40,586
	63,193	48,112
	$139,213	$117,165

On behalf of the Board:

R.G. DALE, Director
J.H. TAYLOR, Director

Consolidated Statement of Source and Application of Funds
Consolidated Statement of Retained Earnings

For the year ended December 31

	1973	1972
	(000's omitted)	
Source of funds:		
Funds generated from operations	$12,655	$ 6,392
Compensation received for expropriated property (note 11)	12,255	
Investments realized	2,301	1,294
Sale of property, plant and equipment	424	1,413
	27,635	9,099
Application of funds:		
Property, plant and equipment	3,688	2,549
Dividends	1,598	1,375
Investments	525	3,016
Long-term debt	659	471
Purchase of minority interest	400	18
Preference shares	260	183
Purchase of goodwill	153	66
Other	72	(86)
	7,355	7,592
Increase in working capital	$20,280	$ 1,507
Working capital at end of year (note 9)	$42,569	$22,289

	1973	1972
Retained earnings at beginning of year:		
As previously reported	$41,536	$39,134
Prior years' pension costs (note 1)	(950)	(950)
As restated	40,586	38,184
Net earnings	16,931	3,777
	57,517	41,961
Dividends:		
Preference shares	80	97
Common shares	1,518	1,278
	1,598	1,375
Retained earnings at end of year	$55,919	$40,586

Notes to Consolidated Financial Statements

December 31, 1973

1. Summary of accounting policies

(a) Principles of consolidation—

The consolidated financial statements include the accounts of the company and all its subsidiaries as of December 31, with the exception of those of Eastern Bakeries Limited and Hillcrest Farm Limited which are as of October 31. All intercompany transactions and accounts have been eliminated.

The excess of cost over book value of net assets of subsidiaries at dates of acquisition has been allocated to property, plant and equipment and to goodwill. Depreciation has been charged against earnings on amounts allocated to depreciable assets. As a general rule goodwill is not amortized but where, in the opinion of management, it has a limited life its cost is amortized.

(b) Investments—

The equity method of accounting is used for investments in all joint ventures. Mortgages and other investments are stated at cost less provisions for losses.

(c) Inventories—

All inventories are valued at the lower of average cost and replacement cost. Grains held for resale are hedged, where applicable. Inventories consist of the following:

	1973	1972
	(000's omitted)	
Grains held for resale	$16,164	$ 7,151
Finished product and materials held for production	35,151	27,562
	$51,315	$34,713

(d) Pension costs—

In 1973 the company retroactively changed its method of accounting for pension costs to recognize current service pension costs more uniformly over the employees' careers. This resulted in an accrued liability of $1,855,000 at December 31, 1972 and a retroactive after-tax charge to retained earnings of $950,000. This change has no material effect on the reported earnings of the past five years.

During the year the company also changed its pension plan, thereby giving rise to a past service liability of $1,245,000 which is being amortized over eight years commencing with $130,000 in 1973. Both of these liabilities will be funded by 1989, as required by statute.

(e) Depreciation—

Depreciation is calculated on the straight-line method. The rates used, as set out below, are estimated to be sufficient to depreciate the cost of the assets to residual value by the expiration of their useful lives:

Buildings	2% to 5% per annum
Machinery & equipment	6-2/3% to 10% per annum
Automotive equipment	15% to 33-1/3% per annum

2. Property, plant and equipment

Property, plant and equipment and accumulated depreciation are set out below:

	1973			1972
		(000's omitted)		
	Cost	Accumulated Depreciation	Net	Net
Land and improvements	$ 2,327	$ 248	$ 2,079	$ 2,454
Buildings	31,247	14,505	16,742	18,011
Equipment	53,608	39,041	14,567	14,988
	$87,182	$53,794	$33,388	$35,453

3. Bankers' advances

Bankers' advances are secured by assignment of accounts receivable, inventories and wheat held as agent of The Canadian Wheat Board.

4. Long-term debt

Long-term debt, excluding amounts due within one year included in accounts payable and accruals, consists of the following:

	1973	1972
	(000's omitted)	
Maple Leaf Mills Limited—		
5¾% sinking fund debentures maturing December 1, 1981	$ 8,498	$ 8,996
Corporate Foods Limited—		
8½% sinking fund debentures, series A due December 15, 1988	4,095	4,209
Other	401	511
	$12,994	$13,716

Annual repayment requirements in the next five years are approximately as follows: 1974—$256,000, 1975—$800,000, 1976 to 1978—$700,000.

5. Deferred income taxes

Income taxes charged to earnings include deferred taxes of $1,537,000 of which $1,500,000 is applicable to extraordinary items. In 1972 income taxes charged to earnings were reduced by deferred taxes of $405,000 of which $184,000 applied to extraordinary items.

6. Capital stock

Capital stock consists of the following:

	1973	1972
	(000's omitted)	
Preference shares Class A, par value $100 each— Authorized 75,000 shares, none issued		
5½% preference shares Class B (cumulative, redeemable at $104 and voting), par value $100 each— Authorized and issued 13,478 shares	$1,348	$1,638
Common shares without par value— Authorized 4,000,000 shares, issued 1,603,954 of which 5,390 are held by a subsidiary	5,280	5,272
	$6,628	$6,910

The letters patent authorizing the 5½% preference shares Class B provide that the company meet annual sinking fund obligations on a basis related to earnings, and in anticipation of this obligation 2,907 of such shares were purchased for cancellation during 1973. The company will be required to redeem after December 1, 1974 the balance of these shares then outstanding.

There are options outstanding on 31,200 common shares under the employees' stock option plan which become exercisable over a period of years to 1979 at prices ranging from $15.00 to $20.00 per share. During the year 611 common shares were issued under the plan for $8,000.

7. Contributed surplus

The increase in contributed surplus of $30,000 in the year represents the gain on preference shares purchased for cancellation.

8. Contingent liabilities

There are guarantees totalling $875,000 under lines of credit to associated companies on which the indebtedness at December 31, 1973 amounted to $783,000.

9. Working capital

Under the trust indenture securing the company's debentures and the letters patent authorizing the 5½% preference shares Class B, there are covenants to maintain working capital and shareholders' equity above stipulated levels. As of December 31, the company's working capital and shareholders' equity substantially exceeded these minimum requirements. The company plans to spend approximately $10,000,000 for acquisitions and new facilities in 1974, including $5,000,000 for construction of two feed plants.

10. Extraordinary items

The extraordinary items consist of the following:

1973—gain on expropriation of land and buildings (note 11)	$8,918,000
—gain on sale of property	154,000
	$9,072,000
1972—gain on sale of properties (note 5)	$ 627,000

11. Expropriation

The Government of Canada expropriated the company's Toronto Waterfront property on May 31, 1973. Subsequently the company accepted (without prejudice to its rights to seek additional compensation) the Government's cash offer of $12,255,000 for land and buildings. The company has obtained independent appraisals which indicate that additional compensation for land and buildings may be justified. However, the gain on expropriation recognized in 1973 is based on the proceeds of the cash offer received net of $1,500,000 income tax.

The company has been offered a licence to continue to occupy the expropriated premises until November 30, 1977 with a view to minimize disturbance and relocation costs. In addition a provisional allowance of $2,781,000 for disturbance costs has been received. The company is confident that additional compensation will be forthcoming if such is required to reimburse total disturbance costs. The amount received less costs incurred to date has been accounted for as a deferred credit and is included in the balance sheet as "Allowance for disturbance costs".

The company has not received a specific offer of compensation for machinery and equipment located on the expropriated property, having a book value of $550,000 at December 31, 1973. The extent to which such machinery and equipment can be relocated has not yet been determined and accordingly, final settlement and the accounting therefor will depend upon future management decisions and negotiations with the Government.

Auditors' Report

To the Shareholders of Maple Leaf Mills Limited:

We have examined the consolidated balance sheet of Mape Leaf Mills Limited and its subsidiaries as at December 31, 1973 and the consolidated statements of earnings and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, after giving retroactive effect to the change, which we approve, in the method of accounting for current service pension costs, explained in note 1 to the consolidated financial statements.

Toronto, Canada,
February 27, 1974

Clarkson, Gordon & Co.
Chartered Accountants

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